IFRS

STAFF PAPER

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IASB® meeting

Project	**Cryptocurrencies**		
Paper topic	Potential new research project		
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Introduction

1. At its meeting in July 2018 the International Accounting Standards Board (Board) discussed cryptocurrencies. The Board discussed whether to add a project on cryptocurrencies to its work plan or research pipeline.

2. The Board decided it did not have sufficient information to reach a conclusion on whether to add a project to its work plan or research pipeline at that time. In particular, some Board members expressed concerns about the existing accounting for holdings of cryptocurrencies.

3. Accordingly, the Board decided to consult the IFRS Interpretations Committee (Committee). The Board asked the Committee for its advice on holdings of cryptocurrencies and Initial Coin Offerings (ICOs).

4. In relation to holdings of cryptocurrencies the Board asked the Committee to:

   (a) provide information about how an entity might apply existing IFRS Standards in determining its accounting for holdings of cryptocurrencies;

   (b) consider whether the application of existing IFRS Standards provides users with useful financial information about holdings of cryptocurrencies; and

   (c) provide advice to the Board about whether standard-setting is necessary and should be a priority for holdings of cryptocurrencies. If so, the Board also asked for the Committee's advice about the form of standard-setting activity.

5. The Committee also discussed the application of existing IFRS Standards for an entity in accounting for cryptoassets issued in an ICO. The Committee did not discuss standard-setting regarding ICOs because the Board's analysis indicates that such transactions are not commonly undertaken by entities reporting using IFRS Standards (IFRS reporters).

6. This paper provides the Board with the Committee's feedback on these matters.

7. The paper is organised as follows:

   (a) summary of staff recommendations (paragraphs 9–11);

   (b) holdings of cryptocurrencies—Committee feedback (paragraphs 12–39), including:

      (i) application of existing IFRS Standards to holdings of cryptocurrencies (paragraphs 12–24);

      (ii) usefulness of applying existing IFRS Standards (paragraphs 25–33); and

      (iii) Committee's advice on standard-setting (paragraphs 34–39).

   (c) holdings of cryptocurrencies—other developments since July 2018 (paragraphs 40–43);

   (d) holdings of cryptocurrencies—prevalence (paragraphs 44–60);

   (e) holdings of cryptocurrencies—staff analysis and recommendations (paragraphs 61–73); and

   (f) ICOs (paragraphs 74–86).

8. Appendix A contains a description of potential standard-setting alternatives for holdings of cryptocurrencies that the Board could consider if it decided that standard-setting is required.

Summary of staff recommendations

9. The staff recommend that the Board do not consider standard-setting for holdings of cryptocurrencies or ICOs at this time because these matters are not currently prevalent among IFRS reporters.

10. Instead, we recommend the Board continue to monitor the prevalence of transactions involving cryptoassets, such as cryptocurrencies, undertaken by IFRS reporters. In monitoring this matter, we will be well-positioned to inform the Board if transactions involving cryptoassets undertaken by IFRS reporters become prevalent in the future. We think such monitoring activities would include:

    (a) performing a regular keyword search of the financial statements of IFRS reporters similar to that described in paragraphs 52–53 of this paper;

    (b) performing a regular review of press clippings, academic research and other literature on cryptoassets; and

    (c) engaging in regular discussions with accounting firms, national standard-setters and regulators.

11. Additionally, we recommend that the Board ask the Committee to consider publishing an agenda decision that clarifies the application of existing IFRS Standards to holdings of cryptocurrencies, including the applicable disclosure requirements.

Holdings of cryptocurrencies—Committee feedback

Applying existing IFRS Standards to holdings of cryptocurrencies

12. We provided the Committee with a staff analysis of the application of existing IFRS Standards to holdings of cryptocurrencies in paragraphs 7–67 of Agenda Paper 4A to the Committee's September 2018 meeting.

13. As explained in our analysis, we think an entity does not account for holdings of cryptocurrencies as cash or another financial asset because we think cryptocurrencies do not currently have the characteristics of cash nor do they meet the definition of a financial asset in IAS 32 *Financial Instruments: Presentation*.

14. If the use of a particular cryptocurrency evolved to such an extent that it was widely used as a medium of exchange and unit of account, then we think an entity would reassess whether that cryptocurrency is cash at that time.

15. If an entity holds cryptocurrencies for sale in the ordinary course of business, we think those holdings of cryptocurrencies would meet the definition of inventories.

Accordingly, the entity would apply IAS 2 *Inventories*. We also think it may be appropriate to apply the requirements in paragraph 3(b) of IAS 2 if the entity is a broker-trader.

16. We think that cryptocurrencies meet the definition of an intangible asset and if an entity does not apply IAS 2 to account for those cryptocurrencies then that entity applies IAS 38 *Intangible Assets*. We have provided a brief description of the IAS 38 measurement models in paragraphs 17–19 of this paper.

17. After initial recognition, paragraph 72 of IAS 38 allows an entity to choose to measure its intangible assets using either the cost model or the revaluation model. The same measurement model is used for all assets in a particular asset class (subject to the active market limitation described in paragraphs 19(a) and 19(d) of this paper).

18. Applying the cost model, in paragraph 74 of IAS 38, an entity measures its intangible assets at cost less any accumulated amortisation and any accumulated impairment losses.

19. Applying the revaluation model in paragraph 75 of IAS 38:

    (a) an entity measures its intangible assets at fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. Fair value shall be measured by reference to an active market.

    (b) an entity recognises an increase in the carrying amount of an intangible asset resulting from a revaluation in other comprehensive income. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

    (c) an entity recognises a decrease in the carrying amount of an intangible asset resulting from a revaluation in profit or loss. However, the decrease is recognised in other comprehensive income to the extent of any credit balance in the revaluation surplus in respect of the same asset.

    (d) if there are assets for which there is not an active market in a class of assets measured using the revaluation model then these assets are measured using the cost model.

20. An entity applies the presentation and disclosure requirements of the same IFRS Standard it uses to measure and recognise its holdings of cryptocurrencies. For example, if applying IAS 38, an entity applies the disclosure requirements in paragraphs 118–128 of that IFRS Standard. IAS 1 *Presentation of Financial Statements* and IAS 10 *Events after the Reporting Period* also contain relevant disclosure requirements.

21. Most Committee members agreed with the staff analysis of the application of existing IFRS Standards to holdings of cryptocurrencies.

22. One Committee member disagreed with the staff analysis and said that cryptocurrencies are excluded from the scope of IAS 38 applying paragraph 7 of IAS 38. Paragraph 7 of IAS 38 states:

> Exclusions from the scope of a Standard may occur if activities or transactions are so specialised that they give rise to accounting issues that may need to be dealt with in a different way. Such issues arise in the accounting for expenditure on the exploration for, or development and extraction of, oil, gas and mineral deposits in extractive industries and in the case of insurance contracts. Therefore, this Standard does not apply to expenditure on such activities and contracts. However, this Standard applies to other intangible assets used (such as computer software), and other expenditure incurred (such as start-up costs), in extractive industries or by insurers.

23. In the view of that Committee member, an entity applies IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to determine the appropriate accounting policy for its holdings of cryptocurrencies.

24. In our view, and as explained in paragraphs 55–62 of Agenda Paper 4A to the Committee's September 2018 meeting, paragraph 7 of IAS 38 applies only to the transactions specifically mentioned in that paragraph. We think an entity cannot apply the scope exclusion to cryptocurrencies by analogy. All other Committee members agreed with our analysis.

Usefulness of applying existing requirements

25. Several Committee members said that applying IAS 38 to holdings of cryptocurrencies would not provide useful information to users of financial statements. Those Committee members expressed concerns about particular aspects of the measurement requirements of IAS 38 if applied to holdings of cryptocurrencies.

Amortisation

26. One member said that cryptocurrencies cannot be considered to have an indefinite useful life, applying paragraph 88 of IAS 38, because they are not expected to generate net cash inflows over an indefinite period.

27. Paragraph 88 of IAS 38 states:

> … An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

28. Accordingly, that Committee member said that, in their view, an entity would be required to amortise its holdings of cryptocurrencies, which would not provide users with useful information.

29. However, another Committee member said that an entity would consider a cryptocurrency to be an indefinite useful life intangible asset. Accordingly, the entity would not amortise its holdings of cryptocurrencies. We agree with this Committee member.

30. We think a cryptocurrency can only generate cash flows for an entity through sale. There is no foreseeable time limit to the period in which an entity could sell its holdings of a cryptocurrency. Accordingly, applying paragraph 107 of IAS 38, we think an entity would not be required to amortise its holdings of cryptocurrencies. Applying paragraph 111 of IAS 38, an entity would be required to apply the impairment requirements of IAS 36 *Impairment of Assets* to its holdings of cryptocurrencies.

Measurement model

31. Some Committee members expressed concerns about entities measuring holdings of cryptocurrencies using the cost model in IAS 38 as an accounting policy choice. This is because, in their view, entities acquire cryptocurrencies as a speculative investment. Those members said that fair value would provide the most useful information to users of financial statements.

32. Some Committee members said that the revaluation model in IAS 38 does not provide useful information because increases in the fair value of assets measured using the revaluation model are recognised in OCI (unless the revaluation reverses a prior revaluation decrease of the same asset) rather than in profit or loss.

33. Additionally, some Committee members said an entity may face some difficulties in measuring cryptocurrencies at fair value. These difficulties arise for two reasons:

    (a) Definition of an active market—Some Committee members said that it may be unclear whether a market for a particular cryptocurrency is active if trading is only possible in exchange for another cryptocurrency rather than directly for cash.

    (b) Existence of an active market—If there is no active market some Committee members said that it is unclear how an entity would determine the fair value of a cryptocurrency. This is because the asset is only able to generate cash flows through a sale in a market to a third party—a cryptocurrency has no other underlying value. Those Committee members said that if there is no active market for a cryptocurrency then it would be difficult to identify the appropriate valuation technique to measure the fair value of that cryptocurrency.

Committee's advice on standard-setting

34. Four Committee members said they would support an amendment to IAS 38 to remove cryptocurrencies from its scope. However, those Committee members said they would not propose to amend another IFRS standard to include cryptocurrencies within the scope of that other IFRS Standard. Accordingly, if the Board amended IAS 38 to introduce a scope exclusion for cryptocurrencies, an entity would apply

IAS 8 to determine an accounting policy for its holdings of cryptocurrencies, unless those cryptocurrencies were within the scope of IAS 2.

35. Other Committee members and observers expressed concerns around such an approach. In particular, they said that excluding cryptocurrencies from the scope of IAS 38 would leave the development of appropriate accounting to practice and could increase diversity.

36. One Committee member said that the Board could consider an amendment to IAS 38 to remove cryptocurrencies from its scope but to also amend IFRS 9 *Financial Instruments* to include cryptocurrencies within its scope. Proceeding with those amendments would, they said, result in entities applying the fair value through profit or loss (FVTPL) measurement model to cryptocurrencies because they would fail the Solely Payments of Principal and Interest (SPPI) test in IFRS 9.

37. Two Committee members said the Board should add a standard-setting project on cryptocurrencies to its agenda immediately. Those Committee members observed that the standard-setting process could take time and that cryptocurrencies are evolving rapidly.

38. Seven Committee members said that it is too early for the Board to consider standard-setting for cryptocurrencies. However, some of those members also said that the prevalence of cryptocurrencies may develop to such an extent that standard-setting becomes necessary. They said the Board should continue to monitor developments in this area.

39. Two of those Committee members said that in the short-term it would be helpful if the Committee published an agenda decision highlighting the application of existing IFRS Standards to holdings of cryptocurrencies. Those Committee members said that it would be particularly useful to highlight the disclosure requirements of existing IFRS Standards and how they apply to cryptocurrencies. One member said that clarifying existing requirements would help to improve the understanding of paragraph 7 of IAS 38.

Holdings of cryptocurrencies—other developments since July 2018

40. As part of our ongoing monitoring activities we have identified two developments in cryptocurrencies since the Board's meeting in July 2018.

World Standard Setters meeting

41. The IFRS Foundation hosted a meeting of World Standard Setters (WSS) in October 2018. At that meeting, WSS participants discussed the application of the *Conceptual Framework for Financial Reporting* issued in March 2018 to holdings of cryptoassets. The discussion did not consider the application of existing IFRS Standards.

42. When asked whether the Board should undertake some form of activity in relation to cryptoassets, many WSS participants advised against standard-setting for cryptocurrencies. However, most supported the Board undertaking some form of activity for cryptocurrencies, including, at a minimum, monitoring activities.

EFRAG research project

43. In September 2018, EFRAG added a project on cryptoassets to its research agenda. The project will focus on cryptocurrencies that are generally meant to be a medium of exchange and tokens that are designed to support a more specific use of the distributed ledger technology. The EFRAG Secretariat said that it expects the research will take approximately 12–15 months to complete.

Holdings of cryptocurrencies—prevalence

44. In July 2018 we provided the Board with information about the prevalence of holdings of cryptocurrencies. This included information obtained from accounting firms, regulators, the Accounting Standards Advisory Forum (ASAF), the Emerging Economies Group (EEG) and from a keyword search of the financial statements of entities reporting using IFRS Standards.

45. The prevalence of holdings of cryptocurrencies appears, in part, to be related to the regulatory and legal environment in different jurisdictions.

46. The AcSB (Canadian Accounting Standards Board) ASAF member, a Canadian regulator and some accounting firms said cryptocurrency transactions are becoming increasingly common in Canada with some investment funds now holding cryptocurrencies and some publicly-listed entities engaging in activities involving blockchain technology.

47. Some ASAF members (eg the Financial Accounting Standards Board (FASB), the Accounting Standards Committee of Germany (ASCG), the China Accounting Standards Committee (CASC) and the European Financial Reporting Advisory Group (EFRAG)) said they are not aware of entities reporting significant holdings of cryptocurrencies in their jurisdictions. Most EEG members also said they are not aware of entities reporting holdings of cryptocurrencies in their jurisdictions; some said transactions involving cryptocurrencies are banned in some jurisdictions.

48. ASAF members from other jurisdictions said they are not aware of IFRS reporters in their jurisdictions holding cryptocurrencies at this time but said there is increasing interest in the topic. Accordingly, those members thought it would be helpful if the Board were to undertake some work to help entities apply existing IFRS Standards to transactions involving cryptocurrencies.

49. The regulators we spoke to, aside from the Canadian regulator, have not identified a significant number of entities reporting holdings of cryptocurrencies at this time. However, those regulators said:

   (a) they expect the number of entities holding cryptocurrencies to increase; and

   (b) questions about the application of IFRS Standards to cryptocurrency transactions continue to increase and, for some jurisdictions, this is becoming an urgent matter.

50. In some jurisdictions (eg Belarus, Estonia, Japan, Lithuania, Slovakia, South Korea and Switzerland), some entities report holdings of cryptocurrencies but report applying local GAAP.

51. The accounting firms we spoke to said, aside from Canada, they are not aware of a significant number of IFRS reporters disclosing holdings of cryptocurrencies at this time. However, the firms also said they are receiving questions on various aspects of transactions involving cryptocurrencies.

Research of publicly-listed entities

52. We performed a keyword search of financial statements issued by publicly-listed IFRS reporters that report holdings of cryptocurrencies.

53. We used the financial search engine, AlphaSense, to search for cryptocurrency holdings in entities' most recent interim (2018) or annual (2017) financial statements. The search was limited to financial statements written in English and would identify the existence of cryptocurrency holdings only if presented and/or disclosed separately in the financial statements.

54. In addition to our own research, some regulators and national standard-setters provided us with information about IFRS reporters that have holdings of cryptocurrencies. We have included this information in our summary.

55. The table below shows the number of IFRS reporters with holdings of cryptocurrencies by jurisdiction. Holdings are segregated between those held as at the balance sheet date and those acquired after the balance sheet date.

Jurisdiction	Holding at the balance sheet date	Holdings acquired after the balance sheet date	Total
Australia	3	1	4
Bermuda	1	2	3
Canada	18	7	25
Isle of Man	1	-	1
Japan	1	-	1
Jersey	-	1	1
Switzerland	1	-	1
UK	1	-	1
Total	**26**	**11**	**37**

56. The principal activity of half of the 26 entities identified as holding cryptocurrencies at the balance sheet date is related to cryptocurrencies. Six entities are investment funds or other financial entities, four are technology entities and the principal activity of the remaining entities is media.

57. We compared the balance of cryptocurrencies held to the total assets for each of the 26 entities identified above. The mean proportion of total assets that are

cryptocurrencies was 15%. The median proportion was 3%. The largest proportion of total assets was 86%, while the smallest was 0.4%.

58. In addition to reviewing the prevalence of cryptocurrency transactions, we also noted the accounting applied by those entities.

59. Of the 26 entities identified as reporting holdings of cryptocurrencies at the balance sheet date above:

    (a) 18 (69%) account for those holdings at FVTPL. In some cases, the entities say they are applying IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9. Other entities say they apply paragraph 11 of IAS 8, and consider IAS 39 or IFRS 9 to address similar and related issues.

    (b) the remaining eight entities apply either IAS 38 (using the cost or revaluation model) or IAS 2 (measured at cost or at fair value through profit of loss using the commodity broker-trader exemption).

60. In September 2018 we performed a key-word search of three XBRL-based databases of recent financial information submitted to the US SEC by IFRS reporters. We searched for various cryptocurrency related terms in the most recent annual or quarterly reports of those IFRS reporters. We did not identify any IFRS reporters not already included in the table in paragraph 55 of this paper.

Holdings of cryptocurrencies—staff analysis and recommendations

61. As described in paragraphs 12–16 of this paper, we think that an entity accounts for its holdings of cryptocurrencies applying IAS 38 unless the entity holds the cryptocurrencies for sale in the ordinary course of business, in which case an entity applies IAS 2.

62. A majority of Committee members agree with the staff analysis but are also concerned that the application of existing IFRS Standards to holdings of cryptocurrencies may not always provide useful information to financial statement users.

63. The concerns identified by Committee members are in the context of the application of particular requirements of IAS 38:

(a) the measurement choice that is available to an entity applying IAS 38 for cryptocurrencies that are traded in an active market; and

(b) the recognition of some changes in fair value in other comprehensive income.

64. Both the Board and the Committee have previously discussed a number of possible standard-setting activities. The Board could ask the staff to perform further work on one of these alternatives which include:

(a) removing cryptocurrencies from the scope of IAS 38 and requiring entities to apply IAS 8 to determine an accounting policy for holdings of cryptocurrencies;

(b) removing holdings of cryptocurrencies from the scope of IAS 38 and amending IFRS 9 to include cryptocurrencies within the scope of IFRS 9;

(c) developing an investments Standard based on IAS 25 *Accounting for Investments*; or

(d) providing a more specific definition of cash.

65. The above standard-setting alternatives are described in more detail in Appendix A to this agenda paper.

66. Although none of the alternatives would be a major project of the scale of IFRSs 9, 15 *Revenue from Contracts with Customers*, 16 *Leases* and 17 *Insurance Contracts*, we think each would be more than a minor project.

67. Additionally, in our opinion, the evidence we have obtained about the prevalence of holdings of cryptocurrencies (as described in paragraphs 44–60 of this paper) indicates that holdings of cryptocurrencies are not a higher priority than other projects on the Board’s workplan or research pipeline at this time.

68. We note that transactions involving cryptocurrencies is an emerging area and that the matter of holdings of cryptocurrencies could become prevalent for IFRS reporters in the future. We also note that prevalence could increase quite quickly. However, at this time, the evidence we have obtained does not indicate that this matter will become

prevalent for IFRS reporters and, accordingly, that the Board should consider either amending one or more existing IFRS Standards or developing a new IFRS Standard.

69. Consequently, instead of standard-setting, we recommend that the Board continue to monitor developments in cryptoassets. We think the staff could undertake the following monitoring activities on behalf of the Board:

    (a) performing a regular keyword search of the financial statements of IFRS reporters similar to that described in paragraphs 52–53 of this paper;

    (b) performing a review of press clippings, academic research and other literature on cryptoassets; and

    (c) engaging in regular discussions with accounting firms, national standard-setters and regulators.

70. In addition to monitoring, we recommend the Board ask the Committee to consider publishing an agenda decision clarifying the application of existing IFRS Standards to holdings of cryptocurrencies and highlighting the applicable disclosure requirements.

71. We think that an agenda decision could provide useful information to stakeholders on how an entity applies existing IFRS Standards to holdings of cryptocurrencies. We think that the provision of such information could help limit diversity in practice in accounting for holdings of cryptocurrencies. An agenda decision would also help communicate the outcome of the discussions by the Board and the Committee on this matter in a format that is both understandable and accessible to stakeholders.

72. In addition, we think the Committee could highlight, in an agenda decision, the disclosures that an entity with holdings of cryptocurrencies is required to provide when applying IFRS Standards. Highlighting these disclosure requirements may help improve the disclosures by entities about the nature and extent of any cryptocurrency holdings thereby providing better information to financial statement users. Additionally, improved disclosures could help inform the Board of the extent of any transactions involving cryptocurrencies which would be useful information to the Board in the context of any monitoring activities it decides to undertake.

73. We also think it may be helpful for our stakeholders if the Board developed some other form of non-authoritative communication, for example a webcast, that

consolidates the discussions of the Board and the Committee on transactions involving cryptoassets.

Questions for the Board—holdings of cryptocurrencies
Does the Board agree with the staff recommendation, in paragraphs 69–73 of this paper, not to undertake standard-setting for holdings of cryptocurrencies at this time but instead to: • continue to monitor developments in cryptoassets; and • ask the Committee to consider publishing an agenda decision clarifying the application of existing IFRS Standards, including the applicable disclosures, to holdings of cryptocurrencies?

ICOs

Committee feedback

74. Agenda Paper 4C to the September 2018 Committee meeting contains a staff analysis outlining how an entity applies existing IFRS Standards to account for cryptoassets issued by an entity in an ICO.

75. We think that how an entity accounts for an ICO depends on the rights and obligations attached to the ICO, which vary from one transaction to another. Accordingly, we think the appropriate accounting will also vary between transactions. We think that the first step in determining the appropriate accounting is an analysis of the transaction including a review of the obligations arising for the entity as a result of the ICO.

76. After identifying the obligations, the entity determines whether the transaction is within the scope of an IFRS Standard. We think there are a number of IFRS Standards that an entity might consider in determining the appropriate recognition and measurement requirements to apply to an ICO. For example, IFRS 9, IFRS 15, IAS 32 and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

77. If the entity determines that an ICO is within the scope of an IFRS Standard, then it applies the disclosure requirements of that Standard. IAS 1 and IFRS 7 *Financial Instruments: Disclosures* also contain relevant disclosure requirements.

78. Committee members agreed with the staff analysis. One Committee member said that it would be helpful to publish this analysis in an agenda decision.

Prevalence

79. In our research we identified significantly fewer ICO transactions undertaken by IFRS reporters than transactions involving holdings of cryptocurrencies.

80. The accounting firms we spoke to said that they are aware of a limited number of IFRS reporters engaging in ICOs.

81. Some accounting firms said that different types of ICOs can result in different rights and obligations. Those firms said the main question arising is whether the issuing entity accounts for the tokens or coins issued in an ICO as equity, a financial liability, a non-financial liability or revenue/income.

82. In discussing ICOs, one firm said there are similarities with other recent developments in how entities raise finance. In their view, crowd funding and green bonds often have similar characteristics to ICOs—all include methods of raising finance for which the issuing entity promises access to future goods or services rather than an equity stake in the entity.

83. In our review of publicly-listed IFRS reporters, as described in paragraphs 52–53 of this paper, we identified the following entities that undertook an ICO in the financial reporting period, or said they planned to do so after the balance sheet date.

Jurisdiction	ICO during the financial reporting period	Planned ICO after the balance sheet date	Total
Canada	-	2	2
Germany	-	1	1
Japan	1	-	1
Norway	-	1	1
Singapore	-	1	1
Thailand	-	1	1
UK	-	1	1
Total	**1**	**7**	**8**

84. The information in the table above reflects financial statements for periods ending either in 2017 or in the first quarter of 2018. We note that the amount raised in ICOs during 2018 has been declining. In September 2018 the amount raised in ICOs was the lowest since May 2017[1].

Staff analysis and recommendations

85. We think the information described in paragraphs 79–84 of this paper indicates the matter is not prevalent at this time. Indeed, the evidence we have obtained from our monitoring suggests that ICOs have become less prevalent since the Board discussion in July 2018.

86. Accordingly, we recommend the Board ask the staff to consider ICOs as part of the proposed monitoring activities on cryptoassets described in paragraph 69 of this paper. However, we recommend the Board take no further action in relation to ICOs at this time.

Question 2 for the Board—ICOs
Does the Board agree with the staff recommendation: • not to consider the accounting for cryptoassets issued in an ICO at the current time; and • to continue to monitor developments in ICOs?

[1] https://www.bloomberg.com/news/articles/2018-10-08/crypto-ico-funding-dropped-in-september-to-lowest-in-17-months

Appendix A—Standard-setting alternatives for holdings of cryptocurrencies

A1. This Appendix provides more details of the standard-setting alternatives the Board could consider if it does not agree with the staff recommendation not to undertake standard-setting as described in paragraph 69 of this paper. A summary of each of these approaches and any feedback we have obtained in our preliminary discussions on these approaches is included in this appendix. The possible standard-setting alternatives we have identified are:

(a) removing cryptocurrencies from the scope of IAS 38 and requiring entities to apply IAS 8 to determine an accounting policy for holdings of cryptocurrencies;

(b) removing holdings of cryptocurrencies from the scope of IAS 38 and amending IFRS 9 to include cryptocurrencies within the scope of IFRS 9;

(c) developing an investments Standard based on IAS 25; or

(d) providing a more specific definition of cash.

Removing cryptocurrencies from the scope of IAS 38

A2. As described in paragraph 34 of this paper, some Committee members said that they would support an amendment to IAS 38 to remove cryptocurrencies from its scope. An entity would instead apply IAS 8 to its holdings of cryptocurrencies.

A3. We think such an approach is likely to enable an entity to measure its holdings of cryptocurrencies at FVTPL because we think many entities would consider that IFRS 9 contains requirements that address similar and related issues applying paragraph 11(a) of IAS 8.

A4. Some stakeholders have suggested that, if the Board consider standard-setting in this way, it also considers whether to produce some form of educational material about how an entity applies IAS 8. Alternatively, other stakeholders have suggested that the Board could ask the Committee to develop an Interpretation of IAS 8 in the context of cryptocurrencies. In the views of those stakeholders, these activities could help ensure consistency in the application of IAS 8 to holdings of cryptocurrencies.

Amending IFRS 9 to include cryptocurrencies in its scope

A5. One of the possible standard-setting activities we discussed with the Committee was to amend IFRS 9 to include holdings of cryptocurrencies within its scope. This is described in paragraphs 48–51 of Agenda Paper 4B to the Committee's September 2018 meeting.

A6. As described in paragraph 36 of this paper, one Committee member suggested the Board take this approach.

Investments Standard

A7. This would address particular investments to which IAS 25 would have previously applied but that are not within the scope of IFRS 9 or IAS 40 *Investment Property*—for example, holdings of cryptocurrencies, artwork or gold. Some of those assets may be within the scope of other IFRS Standards that were not developed with those assets in mind.

A8. At the April 2018 ASAF meeting some ASAF members stated a preference for this approach. Most EEG members also supported this approach. In addition, the EFRAG ASAF member said he would not object to the Board pursuing this approach.

A9. Other ASAF members suggested that the Board consider this approach alongside a complementary approach that has the potential to address the commodity loan transaction discussed by the Committee in March 2017.

A10. Our work on commodities and cryptocurrencies has identified what we think is a gap in IFRS literature—ie there are no requirements specifying the accounting for assets held for investment purposes (or as a store of value) that are not investment property. In addition, we think IAS 38 was developed with particular intangible assets in mind, but not necessarily all assets that may now be within its scope.

A11. In addition, addressing a wider range of transactions, instead of only cryptocurrencies, mitigates the risk of the Board undertaking standard-setting for a topic that may cease to be applicable before the Standard becomes effective.

Definition of cash

A12. In September 2018 five Committee members said, during the discussion on the matter of holdings of cryptocurrencies, that it could be helpful if the Board were to undertake a standard-setting project to more clearly define cash. Those Committee members thought an enhanced definition of cash may be helpful in the application of IFRS Standards to cryptocurrencies.

A13. IFRS Standards do not provide a detailed description of the characteristics of cash. Paragraph 6 of IAS 7 *Statement of Cash Flows* says that cash 'comprises cash on hand and demand deposits'.

A14. Paragraph AG3 of IAS 32 states that cash is a medium of exchange. It also implies that cash is a unit of account. Paragraph AG3 of IAS 32 states:

> Currency (cash) is a financial asset because it represents the medium of exchange and is therefore the basis on which all transactions are measured and recognised in financial statements. A deposit of cash with a bank or similar financial institution is a financial asset because it represents the contractual right of the depositor to obtain cash from the institution or to draw a cheque or similar instrument against the balance in favour of a creditor in payment of a financial liability.

A15. We have identified two possible standard-setting activities the Board could undertake further research on if it were to define cash:

(a) economist definition; or

(b) legal concept.

Economist definition

A16. Many economists consider cash to have three characteristics[2]:

(a) medium of exchange—the asset acts as an intermediary in the exchange of goods and services—ie it replaces barter transactions in which counterparties must have opposite but equal needs to transact.

[2] For example, see Mankiw, N. Gregory (2012) Essentials of Economics

(b) unit of account— cash acts as a standard measurement of value that allows the comparison of the economic worth of goods and services—ie cash is used to price goods and services.

(c) store of value—cash acts as a means of transferring purchasing power from the present to the future—ie instead of consuming the cash now it can be stored and used as a medium of exchange in the future.

A17. The Board could consider amending IAS 7 to add these characteristics as part of a definition of cash. Doing so would provide entities with a framework within which to more clearly determine whether a particular type of asset is cash.

Legal concept

A18. Some Committee members suggested the Board could define cash based on the asset having some kind of legal status in a jurisdiction. This could be the status of 'legal tender' or another legal status.